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PENNSYLVANIA BUSINESS SURVEY

College of Business Administration The Pennsylvania State University **July 1986**

PENNSYLVANIA FOLLOWS NATIONAL TRENDS

Trends in the Pennsylvania economy appear to be mirroring those at the national level where the expected **benefits resulting from the falling dollar, low interest rates, and minimal inflationary pressures have yet to materialize.** It had been widely believed that the combination of these three factors would provide a kick to the economy about mid-year. Indeed, the economy appeared to be gearing up for a surge in activity during the first few months of this year. However, economic signals since then cast a fair amount of doubt over such a rebound. Still, there are **no signals of any significant downturn in economic activity at the State or national levels.**

Evidence of this recent slowing in Pennsylvania is found in the behavior of the employment and unemployment statistics as of late. Employment of the Commonwealth's residents rose to a record-high each month during the January-March period in surpassing the 5.3 million mark. Since then, **employment has declined two consecutive months, settling at a seasonally adjusted 5.24 million in May.** This represents a decline of 59,000 from April. This is, however, the third highest level on record and employment has remained above year-ago readings every month since December.

These same trends are evident on the unemployment front. **During this year's first quarter, the number of Pennsylvania residents counted as unemployed was the lowest since 1980, dipping below 400,000 in February. As of May, unemployment had increased to approximately 450,000.** Again, a comparison with a year ago shows improvement in the State's unemployment picture throughout the first five months of this year.

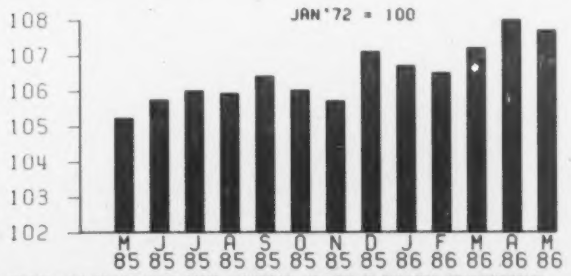
Given these trends, May's 0.8 percentage point increase in the jobless rate, to 7.9 percent after adjustment for normal seasonal variations is not surprising. This represents the largest one-month increase in nearly two years. Overall, though, **the behavior of employment and unemployment, despite some recent sluggishness, does suggest that Pennsylvania is on a moderate growth trend.** In fact, as the accompanying set of charts indicates, Pennsylvania has shown considerable improvement since the recession bottomed out around late 1982. Increases have been registered in employment and the labor force, while unemployment has nosedived.

The State has turned in a mixed performance relative to the nation since the recession ended and our performance relative to the ten other large states with comparable data is average at best. Employment advanced by 7.3 percent in Pennsylvania between 1982 and the January-May 1986 period compared to the nation's 9.4 percent advance. Pennsylvania's increase surpassed that in four of the ten other large states. Much of the same is true when labor force growth is examined. The situation is somewhat brighter on the unemployment front, where the decline in both the number of unemployed and in the jobless rate was stronger in Pennsylvania than in the nation as a whole.

As has been the case throughout much of the past two years, the nonmanufacturing sector fueled the Pennsylvania economy during May. Normally, about 23,000 jobs are generated in the sector during May due to seasonal patterns. Nearly 39,000 jobs were created this May, resulting in a seasonally adjusted or "larger-than-normal" gain of 16,000. This 16*th* consecutive advance left sectoral job levels at a record-high 3.75 million. **Since 1983, jobs in Pennsylvania nonmanufacturing establishments have declined in only four months.**

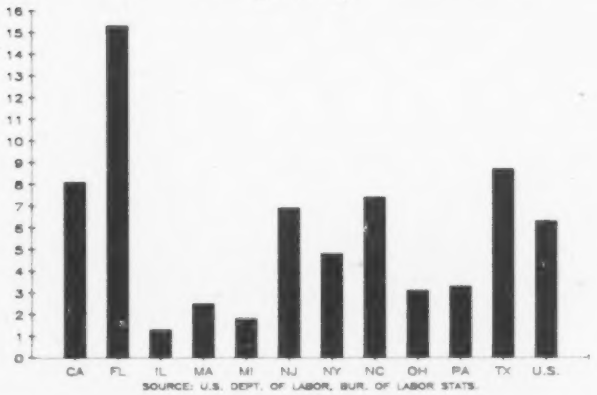
Although the service-producing industries, such as trade, finance, and services, have accounted for the majority of new jobs created recently, the construction industry has also made a considerable contribution. **So far this year, jobs in the State's construction industry have averaged nearly 180,000 each month, a gain of 7.5 percent from a year ago.** A good deal of the improvement is attributable to a surge in residential construction activity brought on by the lowest mortgage rates of the decade. However, the contribution of the other construction categories, nonresidential building and nonbuilding, to economic growth has been overlooked. Despite uncertainty over the future tax treatment of various kinds of construction projects, contract values for future construction in both of these categories is up considerably from a year ago. Specifically, on a year-to-date basis, nonresidential building contract values rose 17.2 percent during the first five months of this year compared to a year ago. Nonbuilding contract values rose a strong 60.3 percent over the same period. The apparent increase in nonbuilding construction ac-

PENNSYLVANIA COMPOSITE INDEX OF LEADING INDICATORS



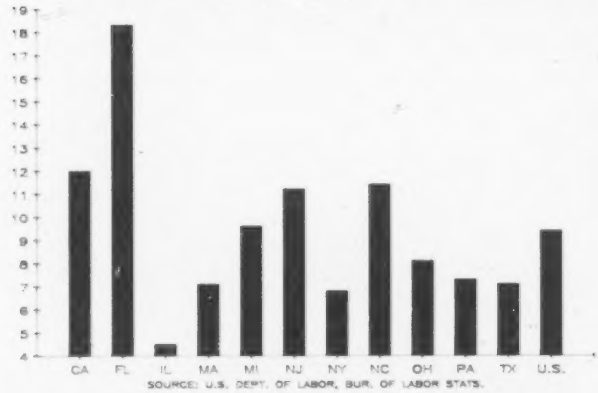
SOURCE: THE PENNSYLVANIA STATE UNIVERSITY COLLEGE OF BUSINESS ADMINISTRATION

LABOR FORCE GROWTH RATES FOR THE 11 LARGEST STATES, 1982 TO 1986 YTD
(percent)



SOURCE: U.S. DEPT. OF LABOR, BUR. OF LABOR STATS.

EMPLOYMENT GROWTH RATES FOR THE 11 LARGEST STATES, 1982 TO 1986 YTD
(percent)



SOURCE: U.S. DEPT. OF LABOR, BUR. OF LABOR STATS.

tivity is an encouraging sign since it will result in improvements in the State's infrastructure (transportation networks, water systems, etc.) which will be a plus for economic development efforts. Residential construction contract values are up 28.3 percent from a year ago despite a sluggish May.

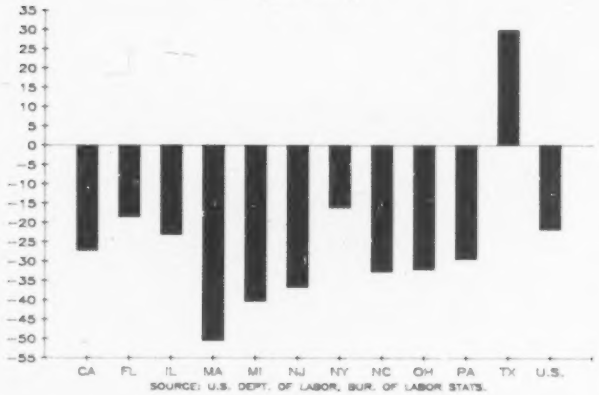
Unfortunately, **the situation in manufacturing remains on the downside.** Job levels in the sector declined for the fourth straight month and for the 20*th* time in the last 24 months. During May, job levels fell 3,800 or 0.4 percent after seasonal adjustment to a record-low 1.05 million. The

Economic Activity in Pennsylvania	UNADJUSTED DATA			SEASONALLY ADJUSTED DATA			SEASONALLY ADJUSTED INDEXES (1977 = 100)		
	1986		1985	1986		1985	1986		1985
	Apr	*May*	*May*	*Apr*	*May*	*May*	*Apr*	*May*	*May*
Pennsylvania Industries									
All nonagricultural industries									
No. of wage and salary jobs (thous.)[1]	4,791*	4,830	4,749	4,791	4,804	4,721	105.0*	105.2	103.4
Nonmanufacturing									
No. of wage and salary jobs (thous.)	3,736*	3,775	3,650	3,739	3,754	3,629	116.0	116.5	112.6
Manufacturing									
No. of wage and salary jobs (thous.)	1,052*	1,052	1,096	1,053	1,049	1,093	78.5	78.2	81.4
Ave. wkly. hrs. worked by prod. workers	40.0	40.0	39.6	40.2	40.1	39.7	101.6	101.4	100.4
Total wkly. person-hours worked (mils.)	28.5*	28.5	29.5	28.6*	28.5	29.5	74.5	74.2	76.8
Total wkly. payroll (mil. dols.)	276.5*	277.5	291.7	278.2*	277.2	281.6	123.8*	123.4	125.3
Steel production (thous. tons)	1,067	1,015	1,077	n.a.	n.a.	n.a.	41.4	42.2	44.8
Industrial electric power sales (mil. kwh)	3,433	3,438	3,472	3,416	3,487	3,527	92.5	94.4	95.5
Mining									
Anthracite coal (thous. net tons)	300	294	335	375	305	341	76.7	62.4	69.8
Bituminous coal (thous. net tons)	5,457	n.a.	5,404†	5,463	n.a.	5,394†	77.5	n.a.	76.5†
Construction contracts awarded (mil. dols.)									
Total	884.8	812.7	740.4*	749.2	800.1	734.5*	232.9	248.7	228.3*
Residential building	434.7	427.9	323.3*	382.8	336.7	246.4*	272.0	239.2	175.0*
Nonresidential building	242.4	206.4	297.5*	213.9	303.5	389.8*	197.2	279.8	359.3*
Nonbuilding (utilities and public works)	207.8	178.4	119.6*	152.5	159.9	98.3*	210.4	220.6	135.6*
Employment of Pennsylvania Residents									
Employed, no. of persons (thous.)	5,189	5,204	5,015	5,300	5,241	5,052	110.3	109.1	105.1
Unemployed									
No. of persons (thous.)	392	433	458	401	451	476	99.9	112.4	118.8
Rate (percentage of labor force)	7.0	7.7	8.4						
Rate, seasonally adjusted				7.1	7.9	8.6			
Civilian labor force, no. of persons (thous.)	5,581	5,637	5,473	5,701	5,692	5,528	109.5	109.3	106.2
Initial claims for unemployment benefits	107,352	89,903	106,406	107,992	109,980	125,511	75.4	76.8	87.7

Consumer Prices, all items	Urban Indexes (1967 = 100)			Percentage Change	
	1986		1985	*Month Ago*	*Year Ago*
	Apr	*May*	*May*		
U.S. city average	325.3	326.3	321.3	+0.3	+1.6
Philadelphia	317.8	318.9	314.2	+0.3	+1.5
Pittsburgh	328.1	n.a.	324.3	n.a.	+1.2
Northeast PA	n.a.	309.2	306.0†	n.a.	+1.0

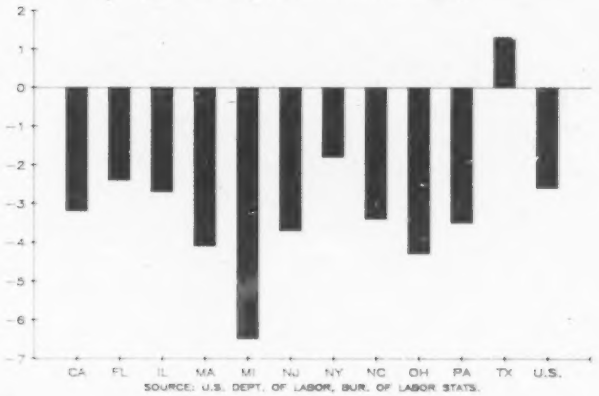
NOTES: Data on employment, payrolls and hours have been revised to first quarter 1985 benchmarks.
[1] Total includes workers on strike. * = figure revised † = figure for April 1984 n.a. = data not available
SOURCES AND DEFINITIONS OF DATA ARE AVAILABLE ON REQUEST.

NUMBER OF UNEMPLOYED GROWTH RATES FOR THE 11 LARGEST STATES, 1982 TO 1986 YTD
(percent)



SOURCE: U.S. DEPT. OF LABOR, BUR. OF LABOR STATS.

UNEMPLOYMENT RATE CHANGES FOR THE 11 LARGEST STATES, 1982 TO 1986 YTD
(percentage point difference)



SOURCE: U.S. DEPT. OF LABOR, BUR. OF LABOR STATS.

State's durable goods industries have been especially hard-hit. For instance, despite some improvement in May, so far this year, steel output in Pennsylvania is down about 7.8 percent from a year-ago. The State's share of domestic output has dipped from 13.8 percent during all of 1985 to 13.4 percent so far this year. In the early- to mid-1970s, the primary metals industry accounted for about one job in every 20 in Pennsylvania with numerous other jobs indirectly dependent on the industry (see chart). Since then, the relative importance of the industry has dropped continuously so that as of 1985, it accounted for slightly more than two percent of all jobs. Problems in this and other heavy manufacturing industries have certainly held back economic growth in the Commonwealth. However, **despite the fact that thousands of individuals are adversely affected in the short-run as Pennsylvania diversifies away from these industries, the economy may benefit in the long-run as it becomes more "recession-resistant."**

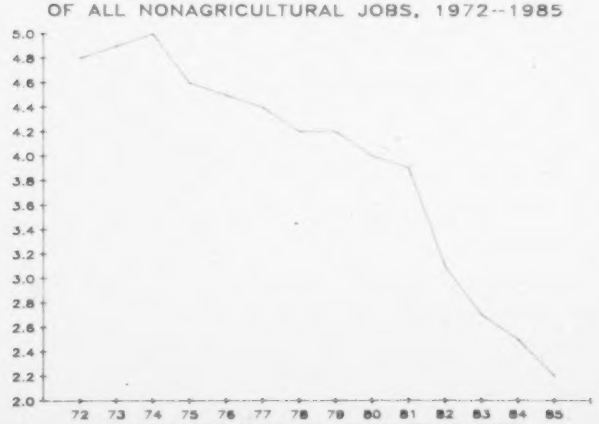
There really is not any good news coming from the manufacturing sector. Average weekly hours and total hours worked both fell during May as did weekly payrolls. A slight increase in electricity sales to industry occurred, but they were still below a year ago. Uncertainty over future tax policy as it relates to manufacturers could further dampen activity in the short-run.

Inflation remains under control, although the best news appears to be behind us. A major monetary policy issue concerns the willingness of the Federal Reserve to push interest rates lower in the face of a rapidly expanding money supply. While a reduction in borowing costs may be what the economy needs to get moving again, some fear that it will quicken money supply growth and lead to more inflation.

The behavior of the coincident and leading indexes over the last several months tends to indicate that the Pennsylvania economy has remained, and will to continue to remain, in a moderate growth scenario. So far this year, the coincident index, which rises and falls with economic activity, has increased two months and declined in three, including a 0.6 percent fall in May, the second consecutive decline. The leading index also increased twice, in March and April, before registering its third decline, 0.3 percent, in May.

— William D. Anderson

PA PRIMARY METALS JOBS AS A PERCENTAGE OF ALL NONAGRICULTURAL JOBS, 1972--1985



SOURCE: PA OFFICE OF EMP. SEC., DEPT. OF LABOR AND INDUSTRY

Announcing . . .

A 32-page study, "Job Growth by Establishment Size in Pennsylvania: Some Preliminary Findings for the 1974-1983 Period," is now available from the College of Business Administration's Center for Regional Business Analysis. Originally summarized in the April issue of the *Survey*, this study analyzes trends in several Pennsylvania industries in examining the relative importance of small vs. large firms as engines of job growth. It is currently available, free of charge, by writing to: The Pennsylvania State University, College of Business Administration, Center for Regional Business Analysis, 108 BAB II, University Park, PA 16802.

This is the first study released as part of the *Pennsylvania Economic Studies* series. Additional studies will be announced as relevant research results become available.

Retail Sales Report

While there are concerns nationally regarding the strength of consumer spending, the situation appears somewhat brighter in Pennsylvania based upon retail sales data for this year's first quarter. Relative to last year's first quarter, retail sales were up nearly ten percent this year to $14.9 billion. This comes on the heels of a 6.8 percent annual gain during the previous quarter. Nationally, retail sales rose slightly over five percent over the 1985:IQ-1986:IQ period following a 5.3 percent gain during the year ending with 1985's fourth quarter.

Certainly, consumer buying power has been bolstered as of late by lower energy prices and stock market gains. However, gains in wages and salaries are the main driving forces behind retail sales growth. If employment continues to behave sluggishly, as it has the past two months in Pennsylvania, wage and salary gains may not be strong enough to maintain the current pace of consumer spending.

Pennsylvania retail sales (millions of dollars)

	Retail sales	Pct. change from yr. ago
1986:IQ	14,940	9.9
1985:IVQ	17,728	6.8

Source: U.S. Dept. of Commerce, Bureau of the Census

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